

# **2009 DRAFTING REQUEST**

## **Bill**

Received: **12/19/2008**

Received By: **mshovers**

Wanted: **As time permits**

Identical to LRB:

For: **Administration-Budget 6-7597**

By/Representing: **Lillethun**

This file may be shown to any legislator: **NO**

Drafter: **mshovers**

May Contact:

Addl. Drafters:

Subject: **Tax, Individual - income credit**

Extra Copies:

Submit via email: **YES**

Requester's email:

Carbon copy (CC:) to:

## **Pre Topic:**

DOA:.....Lillethun, BB0279 -

## **Topic:**

Index for inflation the household income limit of the homestead tax credit

## **Instructions:**

See attached; based on 2009 LRB -0235/2

## **Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/?	mshovers 12/19/2008	jdye 01/05/2009		_____			State
/1			mduchek 01/05/2009	_____	sbasford 01/05/2009		State
/2	mshovers 01/14/2009	jdye 01/15/2009	jfrantze 01/15/2009	_____	cduerst 01/15/2009		State
/3	mshovers	wjackson	jfrantze	_____	sbasford		

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
	01/26/2009	01/26/2009	01/27/2009	_____	01/27/2009		

FE Sent For:

<END>

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13 MEs 1/26/09  
13 wj 1/26  
1/27  
1/27

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/?	mshovers	1 1/5 jld	IN	MD			
1 MES		12/19/08		1/5			

FE Sent For:

<END>

## 2007-09 Budget Bill Statutory Language Drafting Request

- Topic: Index Homestead Credit
- Tracking Code: *BB0279*
- SBO team: Tax, Transportation and Budget Development Team
- SBO analyst: Chad Lillethun
  - Phone: 266-7597
  - Email: Chad.Lillethun@wisconsin.gov
- Agency acronym: DOR
- Agency number: 566
- Priority (Low, Medium, High): High

### Intent:

Beginning in tax year 2010, index the household income limit allowed for the homestead credit for inflation using the U.S. consumer price index.

**Legislative Proposal Summary  
Wisconsin Department of Revenue  
Research and Policy Division**

**Date:** November 25, 2008

**TITLE:** Index Homestead Credit

**DESCRIPTION OF CURRENT LAW AND PROBLEM**

Under current law, a refundable homestead tax credit is available to qualifying low-income households to mitigate the impact of real estate taxes. The amount of the credit is determined by a claimant's household income and property tax (or rent equivalent). The maximum credit is \$1,160 for those with household income of no more than \$8,000 and property tax of \$1,450. The amount of the credit is phased out for incomes above \$8,000 and no credit is allowed for persons with household income above \$24,500.

Because the maximum income allowed for the homestead credit has not been indexed to inflation, the number of eligible claimants with income below the maximum have declined. The real maximum income eligible for the credit was \$8,823 in 2007, down from \$14,000 in 1980.

**RECOMMENDATION FOR ACTION**

Beginning in tax year 2010, index the household income limit allowed for the homestead credit for inflation using the U.S. consumer price index.

**ADMINISTRATIVE IMPACT**

DOR's administrative costs would be minimal.

**FAIRNESS/TAX EQUITY**

The proposal will ensure that the tax relief provided under the homestead credit will not be eroded by inflation.

**FISCAL EFFECT**

Using the 2005 Individual Income Tax Model, adjusted for 2010 income levels and law, indexing would increase the allowable homestead credit by \$2.1 million in fiscal year 2011 and \$4.0 million in fiscal year 2012.

**DRAFTING INSTRUCTIONS**

See 2009 LRB 235/2.

**Create s. 71.54 (2m) to read as follows:**

**71.54 (2m) INDEXING FOR INFLATION; 2010 AND THEREAFTER.** (a) For calendar years beginning after December 31, 2009 to which a claim relates, the dollar amount for the maximum household income under sub. (1) (f) 3. shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer



price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. The amount that is revised under this paragraph shall be rounded to the nearest multiple of \$10 if the revised amount is not a multiple of \$10 or, if the revised amount is a multiple of \$5, such an amount shall be increased to the next higher multiple of \$10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.

(b) The department of revenue shall annually adjust the slope under sub. (1)  
(f) 2. such that as a claimant's income increases from the threshold income under sub.  
(1) (f) 1. and 2., to an amount that exceeds the maximum household income as  
calculated under par. (a), the credit that may be claimed is reduced to \$0 and the  
department of revenue shall incorporate the changes into the income tax forms and  
instructions.

#### **EFFECTIVE DATE AND/OR INITIAL APPLICABILITY**

First applies to calendar years beginning after December 31, 2009, to which a homestead claim relates.

#### **INTERESTED/AFFECTED PARTIES**

Low income households that would qualify for the homestead credit.

#### **DOR CONTACT PERSON**

Rebecca Boldt  
Rebecca.boldt@dor.state.wi.us

DOA ...

stays

PMNR

## 2009 BILL

do not gen

- 1
- 2

AN ACT to create 71.54 (2m) of the statutes; relating to: indexing for inflation  
household income under the homestead tax credit. the budget

head  
TAXATION  
INCOME TAXATION  
subhead

### Analysis by the Legislative Reference Bureau

Under current law, for claims filed in 2001 and thereafter, the homestead tax credit threshold income is \$8,000, the maximum property taxes, or rent constituting property taxes, that a claimant may use in calculating his or her credit are \$1,450, and the maximum household income is \$24,500. Under the current law formula, as a claimant's income exceeds \$8,000, the credit is phased out until the credit equals zero when income exceeds \$24,500. Also under the formula, if the household income is \$8,000 or less, the credit is 80 percent of the property taxes accrued or rent constituting property taxes accrued. Using the formula, the credit that may be claimed ranges from \$10 to \$1,160.

Under this bill, for claims filed in 2011 and thereafter, the maximum household income is indexed for inflation. Also under the bill, as a claimant's income exceeds the threshold income amount, the credit is phased out until the credit equals zero when income exceeds the maximum income as adjusted for inflation.

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

*The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:*

# BILL

**SECTION 1.** 71.54 (2m) of the statutes is created to read:

71.54 (2m) INDEXING FOR INFLATION; 2010 AND THEREAFTER. (a) For calendar years beginning after December 31, 2009, the dollar amount for the maximum household income under sub. (1) (f) 3. shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. The amount that is revised under this paragraph shall be rounded to the nearest multiple of \$10 if the revised amount is not a multiple of \$10 or, if the revised amount is a multiple of \$5, such an amount shall be increased to the next higher multiple of \$10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.

(b) The department of revenue shall annually adjust the slope under sub. (1) (f) 2. such that, as a claimant's income increases from the threshold income under sub. (1) (f) 1. and 2., to an amount that exceeds the maximum household income as calculated under par. (a), the credit that may be claimed is reduced to \$0 and the department of revenue shall incorporate the changes into the income tax forms and instructions.

**(END)**

**Shovers, Marc**


---

**From:** Kreye, Joseph  
**Sent:** Wednesday, January 14, 2009 1:04 PM  
**To:** Shovers, Marc  
**Cc:** Lillethun, Chad W - DOA  
**Subject:** FW: Indexing under negative inflation  
**Attachments:** DOA comments LRB 1237-1 HOMESTEAD INDEX NO CPI.doc; DOR comments - LRB Draft 2 AMT index NO CPI.doc

Mr. Shovers,

I believe this is for you.

---

**From:** Lillethun, Chad W - DOA [mailto:Chad.Lillethun@wisconsin.gov]  
**Sent:** Wednesday, January 14, 2009 12:58 PM  
**To:** Kreye, Joseph  
**Subject:** FW: Indexing under negative inflation

FYI

---

**From:** Gates-Hendrix, Sherrie L - DOR  
**Sent:** Wednesday, January 14, 2009 12:29 PM  
**To:** Lillethun, Chad W - DOA  
**Cc:** Raes, Julie M - DOR  
**Subject:** FW: Indexing under negative inflation

Hi Chad --

Here are comments on two drafts -- 1237/1 (homestead) and 1238/2 (AMT). Note that these comments do not address the issue raised in the email below regarding negative inflation. We are still waiting for an indication as to whether that should be addressed.

Sherrie

---

**From:** Boldt, Rebecca A - DOR  
**Sent:** Tuesday, January 13, 2009 10:34 AM  
**To:** Koskinen, John B - DOR; Caruth, Bradley R - DOR; Stock, Marcella L - DOR; Gates-Hendrix, Sherrie L - DOR; Lillethun, Chad W - DOA  
**Cc:** Templeton, Carrie E - DOR  
**Subject:** Indexing under negative inflation

I talked to Marcy and my logic was incomplete regarding the indexing of brackets and standard deduction - the real possibility arises that the 2010 brackets/s.d. will be lower than the 2009 levels. We can seek a legal opinion as to what "shall be increased" means in terms of indexing. And/or we can push for language to clarify that in no case shall the brackets/s.d. be lower than the prior year's parameters. This probably should be done sooner rather than later. I will work up a proposal to that effect.

-----

Rick Olin called and raised the concern about indexing in 2009 when CPI is expected to go negative. I believe this is not a

01/14/2009

concern insofar as indexing for brackets are relative to 1997 CPI and indexing for the standard deduction is relative to 1999 CPI, in both cases the indexing using the 2009 CPI will still be above 1 (i.e.,  $2009/1999 > 1$  and  $2009/1997 > 1$ ).

HOWEVER, our AMT and homestead proposals do index year over year - and specify that the parameters "shall be increased" - in other words, the CPI of the prior year relative to the CPI of the year prior to the previous year. In both cases, we will have a problem in tax year 2010 (August 09/August 08 will be  $< 1$ , though perhaps only slightly  $< 1$ ).

Question - should we clarify to say that in no case will the parameters be adjusted by an index of less than 1. I think as it is now we are creating a problem for ourselves in how to interpret "an increase".

One simple alternative (to at least avoid the problem for now) would be to push out the effective dates so that no computation will be based on the 2009/2008 CPI ratio (i.e., push out to tax year 2011 so the first indexing would be based on the 2010/2009 ratio). But in any event, clarity of language requires that we contemplate a negative change.

Any thoughts? I am now reviewing the draft language for the AMT indexing, so now is the time to seek a change in the language.

Rebecca

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## **2009-11 LRB Draft Review**

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**Date:** January 13, 2009

**LRB Number:** 1237/1

**Reviewed by:** Rebecca Boldt and Marcella Stock

**Brief Description of LRB Draft:**

The bill indexes to inflation the maximum household income allowable for purposes of claiming the homestead credit. The bill takes initial effect in tax year 2010.

**Comments on Draft:**

The bill is drafted as requested; however, the draft specifies for purposes of indexing the exemption levels beginning in tax year 2010, the exemption levels "shall be increased each year" by a percentage equal to the percentage change between the U.S. CPI for the month of August of the prior year and the August CPI of the year before the previous year. However, because the base exemption amount, as specified in s. 71.54(1)(f)3, the indexing should not be based on a year over year change but the percentage change in the CPI from August of the year prior to the tax year and August of 2008.

**Changes Needed & Why:**

**Page 2, line 7:** strike "of the"

**Page 2, line 8:** strike "year before the previous year" and replace with 2008



State of Wisconsin  
2009 - 2010 LEGISLATURE

LRB-1237/1

MES:jld:md

*FMA*

DOA:.....Lillethun, BB0279 - Index for inflation the household income limit  
of the homestead tax credit

FOR 2009-11 BUDGET -- NOT READY FOR INTRODUCTION

*0 - NOTE*

*do not go*

*indexing for inflation  
household income under  
the homestead tax  
credit*

1 AN ACT ...; relating to: *the budget*

*Analysis by the Legislative Reference Bureau*

**TAXATION**

**INCOME TAXATION**

Under current law, for claims filed in 2001 and thereafter, the homestead tax credit threshold income is \$8,000, the maximum property taxes, or rent constituting property taxes, that a claimant may use in calculating his or her credit are \$1,450, and the maximum household income is \$24,500. Under the current law formula, as a claimant's income exceeds \$8,000, the credit is phased out until the credit equals zero when income exceeds \$24,500. Also under the formula, if the household income is \$8,000 or less, the credit is 80 percent of the property taxes accrued or rent constituting property taxes accrued. Using the formula, the credit that may be claimed ranges from \$10 to \$1,160.

Under this bill, for claims filed in 2011 and thereafter, the maximum household income is indexed for inflation. Also under the bill, as a claimant's income exceeds the threshold income amount, the credit is phased out until the credit equals zero when income exceeds the maximum income as adjusted for inflation.

For further information see the **state** fiscal estimate, which will be printed as an appendix to this bill.

***The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:***

1       **SECTION 1.** 71.54 (2m) of the statutes is created to read:

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5       percentage change between the U.S. consumer price index for all urban consumers,  
6       U.S. city average, for the month of August of the previous year and the U.S. consumer  
7       price index for all urban consumers, U.S. city average, for the month of August of the  
8       year before the previous year, as determined by the federal department of labor. The  
9       amount that is revised under this paragraph shall be rounded to the nearest multiple  
10      of \$10 if the revised amount is not a multiple of \$10 or, if the revised amount is a  
11      multiple of \$5, such an amount shall be increased to the next higher multiple of \$10.  
12      The department of revenue shall annually adjust the changes in dollar amounts  
13      required under this paragraph and incorporate the changes into the income tax  
14      forms and instructions.

15      (b) The department of revenue shall annually adjust the slope under sub. (1)  
16      (f) 2. such that, as a claimant's income increases from the threshold income under  
17      sub. (1) (f) 1. and 2., to an amount that exceeds the maximum household income as  
18      calculated under par. (a), the credit that may be claimed is reduced to \$0 and the  
19      department of revenue shall incorporate the changes into the income tax forms and  
20      instructions.

21      ( (END) )

0-NOTE  
↓



1 5. The amounts described under subds. 1. and 4. for nonresidents and  
2 part-year residents shall be prorated on the basis of the ratio of Wisconsin adjusted  
3 gross income to federal adjusted gross income.

4 **SECTION 4.** 71.08 (1) (e) of the statutes is amended to read:

5 71.08 (1) (e) Multiply the amount under par. (d) or (dm) by 6.5%.

6 (END)

D-NOTE

for-1237/2  
↑

Chad Littleham:

To address DOE's concern ~~about~~ <sup>negative</sup> inflation, one option would be to change <sup>like</sup> page <sup>2</sup> 1, lines <sup>4</sup> 1 to <sup>8</sup> 12, to say something like "... shall be adjusted each year by a percentage ... by the federal department of labor, except that the adjustment may occur only if the percentage is a positive number." ~~the~~

MZJ

**DRAFTER'S NOTE  
FROM THE  
LEGISLATIVE REFERENCE BUREAU**

LRB-1237/2dn  
MES:jld:jf

January 15, 2009

Chad Lillethun:

To address DOR's concern about negative inflation, one option would be to change page 2, lines 4 to 8, to say something like "... shall be adjusted each year by a percentage... by the federal department of labor, except that the adjustment may occur only if the percentage is a positive number."

Marc E. Shovers  
Managing Attorney  
Phone: (608) 266-0129  
E-mail: [marc.shovers@legis.wisconsin.gov](mailto:marc.shovers@legis.wisconsin.gov)

**Shovers, Marc**

**From:** Lillethun, Chad W - DOA [Chad.Lillethun@wisconsin.gov]  
**Sent:** Monday, January 26, 2009 2:35 PM  
**To:** Shovers, Marc  
**Subject:** RE: Status on DOR / Lillethun Drafts

Hi Marc. Here's an update on the drafts related to your area. I still owe you information on the [REDACTED] (%). We're still working out our preferred direction on those. But as for the other two, here's what I have. Let me know if you have any questions.

- 1) Federal [REDACTED] It's not moving forward as part of the Executive Budget.
- 2) Also, the Index Homestead Credit is moving forward with your recommendation to provide language that prevents a reduction in the maximum income in a negative inflationary environment.

Previous DOR comments re: Homestead:

**NOTE:** Given the forecasted CPI for August 2009 is expected to be lower than August 2008, the maximum income for the 2010 homestead calculation will be lower than the current law of \$24,500. Either the draft should delay the effective date or provide language to prevent the maximum income from going below the prior year.

-Chad

**From:** Shovers, Marc [mailto:Marc.Shovers@legis.wisconsin.gov]  
**Sent:** Monday, January 26, 2009 10:56 AM  
**To:** Lillethun, Chad W - DOA  
**Subject:** RE: Status on DOR / Lillethun Drafts

Hi Chad:

Everything looks OK, except that you should have received the /3 version of -1240 around 12:30 p.m. on Friday 1/23. If you didn't get it, let me know and I'll send you another electronic copy.

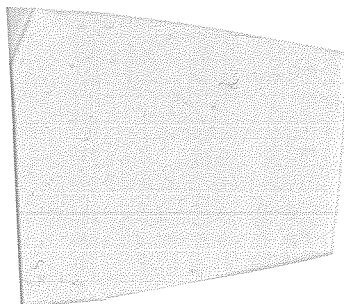
Marc

**From:** Lillethun, Chad W - DOA [mailto:Chad.Lillethun@wisconsin.gov]  
**Sent:** Monday, January 26, 2009 10:41 AM  
**To:** Shovers, Marc; Kreye, Joseph  
**Subject:** Status on DOR / Lillethun Drafts

Marc & Joe - I thought we should compare notes on the status of DOR drafts still outstanding. If you have a different understanding concerning a draft's status is, please let me know.

Marc - I hope to provide you the necessary guidance later this morning for the below noted items requiring additional DOA guidance.

Thanks,  
 -Chad



IN / OUT	Drafter	Status
IN	Shovers	Guidance required from DOA
IN	Shovers	Guidance required from DOA
IN	Kreye	Additional Guidance may be required from DOA
IN	Shovers	Additional Guidance may be required from DOA
IN	Kreye	Awaiting Next DOR Review
IN	Kreye	Awaiting Next DOR Review

01/26/2009



State of Wisconsin  
2009 - 2010 LEGISLATURE

LRB-1237/2

MES:ild:jf

Stas  
+ Wlj

MR

DOA:.....Lillethun, BB0279 – Index for inflation the household income limit  
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FOR 2009-11 BUDGET -- NOT READY FOR INTRODUCTION

do not  
gen

- 1 AN ACT ...; **relating to:** indexing for inflation household income under the  
2 homestead tax credit.

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*Analysis by the Legislative Reference Bureau*

**TAXATION**

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9       this paragraph shall be rounded to the nearest multiple of \$10 if the revised amount  
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17      calculated under par. (a), the credit that may be claimed is reduced to \$0 and the  
18      department of revenue shall incorporate the changes into the income tax forms and  
19      instructions.

20      <sup>^</sup>  
20      <sup>Δ</sup> except that (END)

Not  
the adjustment may occur only if the percentage  
change is a positive number



State of Wisconsin  
2009 - 2010 LEGISLATURE

LRB-1237/3  
MES:jld&wlj:jf

DOA:.....Lillethun, BB0279 - Index for inflation the household income limit  
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FOR 2009-11 BUDGET -- NOT READY FOR INTRODUCTION

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Under current law, for claims filed in 2001 and thereafter, the homestead tax credit threshold income is \$8,000, the maximum property taxes, or rent constituting property taxes, that a claimant may use in calculating his or her credit are \$1,450, and the maximum household income is \$24,500. Under the current law formula, as a claimant's income exceeds \$8,000, the credit is phased out until the credit equals zero when income exceeds \$24,500. Also under the formula, if the household income is \$8,000 or less, the credit is 80 percent of the property taxes accrued or rent constituting property taxes accrued. Using the formula, the credit that may be claimed ranges from \$10 to \$1,160.

Under this bill, for claims filed in 2011 and thereafter, the maximum household income is indexed for inflation. Also under the bill, as a claimant's income exceeds the threshold income amount, the credit is phased out until the credit equals zero when income exceeds the maximum income as adjusted for inflation.

For further information see the ***state*** fiscal estimate, which will be printed as an appendix to this bill.

*The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:*

**SECTION 1.** 71.54 (2m) of the statutes is created to read:

71.54 (2m) INDEXING FOR INFLATION; 2010 AND THEREAFTER. (a) For calendar years beginning after December 31, 2009, the dollar amount for the maximum household income under sub. (1) (f) 3. shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 2008, as determined by the federal department of labor, except that the adjustment may occur only if the percentage is a positive number. The amount that is revised under this paragraph shall be rounded to the nearest multiple of \$10 if the revised amount is not a multiple of \$10 or, if the revised amount is a multiple of \$5, such an amount shall be increased to the next higher multiple of \$10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.

(b) The department of revenue shall annually adjust the slope under sub. (1) (f) 2. such that, as a claimant's income increases from the threshold income under sub. (1) (f) 1. and 2., to an amount that exceeds the maximum household income as calculated under par. (a), the credit that may be claimed is reduced to \$0 and the department of revenue shall incorporate the changes into the income tax forms and instructions.

(END)